AB InBev Investor Seminar
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Thank you Chris.

Your Balanced Portfolio approach is a perfect example of a data driven platform providing solutions to drive category growth. I am very excited about what this platform can do for the beer category at retail.

Another area where we have used a data driven approach to drive growth is in the area of revenue management. As we considered the ABI merger, we knew that the US beer industry was a fairly mature one, with high per capita consumption, and that we should not expect emerging market type industry growth.

We always knew that revenue management was a discipline that we would need to master in order to drive our top line growth in the country. The understanding that revenue management would be critical to driving top line growth took on even a heightened urgency as the recession hit.

Very poor macro fundamentals - including a very low labor participation - meant that in the medium term, we could not expect the industry to grow. That led us to initiate a deep dive of potential revenue management opportunities in the country. We started with a diagnostic of revenue management capabilities within AB, and uncovered some interesting opportunities.

We found that pricing decisions at AB had been largely decentralized - the opposite of what we had in other markets where we had successful revenue management strategies as decentralization often leads to more aggressive strategies. We found that historical beer prices in the United States had lagged inflation or CPI, suggesting an opportunity to recover value.

We also observed that based on an ever increasing PTC gap between the premium and the value segments, the value segment was growing share within our mix, to some degree undermining our premium portfolio. This phenomenon accentuated after the onset of the recession, as what happened across many other CPG categories also happened in beer - consumers began to trade down fairly aggressively.

Our detailed econometric analysis showed that beer industry demand is not overly price elastic. We also saw that beer was very inexpensive compared to other developed economies, even more so once disposable income was factored into the equation.

However, we understood clearly that the market is extremely competitive, and that price gaps to key competitors have a significant impact on market share. Cross price elasticity between brands is very high. Armed with this data and these insights, we embarked on a comprehensive program to upgrade our revenue management capabilities.

We first centralized our pricing strategy. Keeping our national strategy in mind, we created national pricing guidelines and supplemented them with a very clear system whereby our national revenue team in STL is closely involved in and approves most pricing decisions. This was further supported by the cascading of appropriate targets, and by shifting our focus from volume objectives to marginal contribution objectives. We then followed our pricing guidelines and took price increases in a very methodical and thoughtful way.

The successful implementation of our revenue strategy led to the positive situation where Price to consumer increases has been lower than our Net Revenue per HL increases. This has helped minimize the consumer impact from our revenue strategy. We were also able to positively improve our mix trends.

We did so in two ways:

First, we stabilized the share of our premium brands within our mix by closing the gap between premium and sub-premium prices, in effect by raising prices on our sub premium more than we did on our premium. And second, we successfully grew our high end business which basically doubles as a percentage of our mix.

This was achieved through greater commercial focus on our existing high end brands such as Stella Artois and Shocktop, but importantly, also through the success of our innovation brands.

The vast majority of innovation brands are priced well above premium, driving margin as well as volume. This has been very good for us. The results of this strategy, in our view are compelling. As expected, the industry declined over the period, driven to a very large degree by macro-economic pressures that were beyond our control.

However, we were able to offset that volume decline, and grow revenue over the period by 5 percent or 600 MM dollars as our revenue per HL increased by 14 per cent!!We are proud of these results in such a difficult environment.

We resisted the urge to address macroeconomic weakness through discounting, and we feel we much better off as a result of this strategy. While we are content with our results we know we need to do much more. The reality is that the US market is very competitive, and that if we want to grow Net Revenue per HL AND market share, we need to sharpen our revenue management toolbox even more.

There are a number of challenges in front of us. The first relates to high end price compression. While we have raised our prices over the last 5 years, our largest high end import competitors have not. This has led to the erosion of the price premium those brands had above the average price in the market from a 160 index to a 133 index. This is a 27 point erosion of their price premium, and as we will see later this puts some market share pressure on our premium brands.

Furthermore, a detailed analysis of PTC price points in the market has shown that at a very local and granular level there is a huge opportunity for us to work with our retailers and recommend price points that are optimally positioned in the market. That is not always the case today. Observing those price points is critical

One of the largest areas of opportunities for us lies in promotions and promotion communication. Different from what happens in other CPG categories; in beer 97 percent of promotions take the shape of a standard discount off of a frontline price.

This is exactly how we promoted beer decades ago, and there is a huge opportunity to optimize the substantial investment we and our wholesalers make as price promotions with retailers.

We are far behind best in class in this area. Over the past 18 months we have analyzed the opportunities I have just described to you and have developed a comprehensive revenue management framework to address them.

This framework is our 3P framework. The First P stands for Price to consumer excellence. The second P stands for promotion optimization, or Promopti. And the 3rd P stands for pack price. Let's look at each one of the Ps individually.

PTC excellence is critical. We have observed that poor price positioning in the market leads to share loss. On the chart on the left, a thorough analysis of store level data has shown is that when the price gap between our premium and high end import brands grows by 10 points or more, premium brands gain 2 market share points. Conversely, in accounts where that price gap has eroded by 10 points or more, we lose 0.8 market share points.

The good news is that the data is on our side. What we have also seen is that retailers that execute a greater price gap between high end imports and our premium brands have better sales trends.

In the case in point, retailers that maintain a 130 index between high end imports and premium are growing their revenues by 6 percent, more than twice the rate of growth for retailers that are maintaining an index below 120.

This is due to the higher price elasticity of our premium brands as compared to high end brands. Promoting our brands is more effective for retailers. We will use these insights in a big way in 2014. In our chain accounts, we will use our Joint Business Plan process at a senior level to sell in price optimization.

We will then leverage our technology to identify any existing undesired price gaps across 35,000 individual accounts - on a weekly basis - allowing our teams to act against those gaps and try to close them immediately.

We have also incorporated PTC excellence as one of the three pillars of our Rock the POC turbo trade program for independent accounts. In 2014 PTC excellence will be a huge priority for my team and me.

The second P, PromOpti, is about leveraging behavioral economics and consumer insights to optimize the promotion communication to our consumers. The curve on the left represents the volume lift from different price promotions using standard communication.

We have researched how consumers behave to find promotion communications that create more volume lift from the same investment, or deliver the same volume lift for less investment. We performed in-market tests based on our consumer research and in every test, the alternative promotion performed better than the standard price communication.

In this example, we tested a regular promotion of $11.99 for 18-Pack cans against buy the first pack at $13.99 and receive 25% of the 2nd pack. The standard promotion resulted in a 3% volume lift vs. the prior month, while the alternative promotions resulted in a lift of 24%.

In addition, the retailer made more margin on the alternative promotion as a significant percentage of consumers only bought 1 pack at the higher price. Based on our learning, we will be expanding our PromOpti program significantly in 2014.

Our research has shown is that optimized and more thoughtful promotion communication can help us either drive a higher lift with the existing promotional dollars, or optimize promotional spend.

The third P, Pack price, is about utilizing competitive advantages in packaging to offer value to our consumers and protect key price points. For 2014, we have 2 pack price big bets: The 8-Pack 16oz recloseable aluminum bottle will offer a better out of pocket price than the similar package from our main competitor while maintaining a similar price per serving.

Consumer research also shows a strong preference for our aluminum bottle design. The 25oz can offers 4% more value to the consumer when at the same price per unit as our 24oz can. Early results show a 9% volume lift on the 25oz can vs. the 24oz can, indicating consumers are responding to the extra value in the package. Both of these packages will be supported with 360 degree programming including distribution objectives, strong trade activation, and full media support.

So in summary, during the last 5 years AB had implemented a new revenue strategy resulting in strong revenue dollars growth. Moving forward our strategy needs to evolve to support better volume and share, and address risks and opportunities that have not yet been fully captured.

We are convinced we have identified the right initiatives to do that with our 3P strategy PTC. Excellence and trade programs like Rock the POC Turbo will help us to address the price compression. Promopti concepts and programs like promopti racks and BL/Frito/Pepsi cross merch will help us to optimize our promotional investment. And lastly we will continue to go BIG on Pack Price items.

It is important that we make sure to have a complete portfolio; which addresses the right price points with the right packages for our consumers. Hopefully I have convinced you that we have a comprehensive framework to continue to drive better revenue management execution.

In this next section our goal is to show you how we are leveraging big data and best in class technology to drive superior execution. Ricardo Melo is our VP Sales Strategy. Along with

Luiz Edmond, Bernardo Paiva and others, he was one of the architects of our sales machine in Brazil. Prior to coming to the US, he was our VP of sales in Canada. Over the past two years he and I have been working together to build the US sales machine.

Please join me in welcoming Ricardo Melo to the stage.

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